

FARM FACTS

Community Owned Cow/Calf Operations

Diversification and investment opportunity for grain and livestock producers

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Introduction

As a result of the changes that have taken place in the agricultural industry over the past number of years (such as the loss of the WGTA freight subsidy in 1995), the economics of grain and livestock production has changed significantly. The loss of the WGTA has meant that crops grown for export are less profitable as producers are now required to pay the full amount of transportation costs. While the increase in freight costs has meant lower prices for grain producers on the prairies, the lower grain prices have improved the economics of livestock production in the region.

To address the issue of declining grain revenues producers have been looking toward various diversification options to help bolster incomes. One such diversification option is for producers to form community owned cow/calf operations. This can be an attractive option to some producers as it allows for diversification without having to make significant changes or

capital investments in their individual operations, but still enables them to diversify their operations and make use of the competitive advantages the livestock industry offers.

Structure and Operation of a Community Owned Cow/calf Enterprise

Participation/involvement in a community owned cow/calf enterprise is achieved through the purchase of shares in the newly formed entity (corporation or co-op). Share offerings are generally of two types. "A" shares, which are the voting shares of the company, allow producers a voice in the operation of the business. "B" shares, which are non-voting shares, allow producers or individuals the opportunity to invest in the company/coop, but do not give them a voice in the operation of the business. Voting shareholders elect a board of directors who form and implement company/coop strategies and policies. The board of directors also hire a general manager who is responsible for the running of the day to

day operations of the business. The manager in turn hires additional staff to assist with the execution of these duties. Investors receive profits earned through the operation of the business by way of dividend payments.

In addition to dividend payments as an investor, producer-investors may also be able to receive additional returns to their individual farming operations as a result of the establishment of a large community owned cow/calf enterprise. Grain produced on area farms could be sold to the cow/calf operation for winter feed allowing grain producers higher returns due to reduced transportation costs. As well, grain land could be converted to pasture or forage to provide summer grazing or winter-feed to also increase returns from the land.

Finally, producers could seek contractual arrangements to have manure from the winter feeding area spread on their land to improve soil fertility and reduce fertilization costs.

Benefits of Community owned cow/calf operation

- By combining resources in a community owned business the cow/calf operation will be able to achieve greater economies of scale than what individual producers could achieve on their own.
- Risk associated with the diversification project is shared with other investors to limit potential losses (i.e. investors can only lose the amount of money they invest in the business).
- Grain producers can get involved in the livestock industry without having to make large irreversible investments in facilities or equipment.
- Cow/calf enterprise will be a stand-alone business making use of specialized labour without requiring additional labour from the investors.
- Price cycles in the livestock industry are negatively correlated with those of the grain industry, which will help to smooth income flows for grain producers. (See Table 1.1)
- Allows producers the ability to benefit from the competitive advantages Saskatchewan provides in the cow/calf industry. In a study comparing costs of production for cow/calf operations in Saskatchewan vs Alberta, Saskatchewan was found to provide significant costs of production advantages over Alberta due mainly to lower land/pasture values and feed barley costs (Brown 1999).
- Establishment of a large cow/calf operation in the area will also provide farmers with alternative marketing opportunities to further diversify their operations. Some of these opportunities include sale of feed grains and forage or the

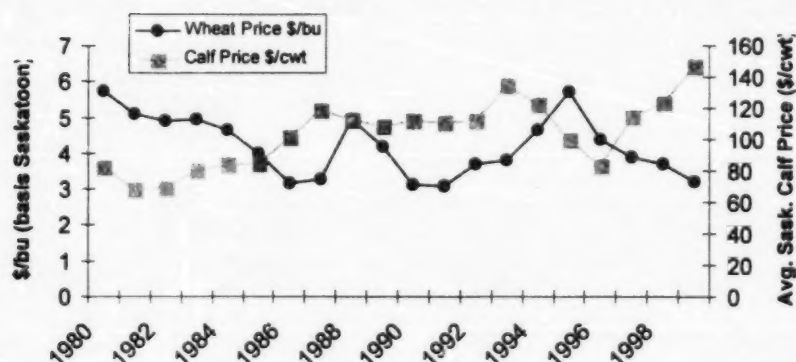
conversion of grain land to pasture for lease to cow/calf operation for summer grazing.

- Ability to have manure spread on land to improve soil fertility and reduce fertilizer expenses.

Disadvantages of large community owned cow/calf operation

- Due to the large start up costs and additional overhead (e.g. hired labour, etc.) profitability of the operation will be susceptible to financial risks associated with fluctuations in calf prices and interest rates, especially during the first years of operation.
- Profits of the business must be shared with other investors. Profits during start up will likely be small resulting in limited return on investment during these years, especially if small profits are split among a large number of investors.
- Investors in the business may share different goals leading to conflicts among board of directors and investors.
- Increased regulatory requirements must be followed due to set up of a large intensive livestock operation.
- Risk of limited acceptance within the community could lead to shortages of inputs required (capital, feed, pasture, etc.) resulting in economies of scale not being achieved.

Table 1.1 Calf Prices vs Wheat Price



Source: Statistics Branch, Saskatchewan Ag. and Food

Sask. Agriculture & Food Cow Wintering and Fall Grazing Program

Another option for grain or livestock producers to diversify or expand their operations without having to make significant investments in facilities or equipment is to make use of a special wintering and fall grazing program offered by the Saskatchewan Pastures Program. Cows enter the program around November 1st and are fed until about a month before calving when they are returned to the producer. Costs of the program are \$1.35/hd/day. Advantages of this program include:

- Reduction in the amount of feed required by the producer's so larger herds can be maintained.
- Better quality feed can be retained for the spring calving period.
- Summer workload is reduced, as less feed is required.
- Professional pasture managers supervise livestock with access to the latest livestock research, technology, and information.
- Opportunity to diversify or expand if space or time is limited.

Livestock loan Guarantee Program

This program assists Saskatchewan residents to establish production associations and borrow funds based on a government guarantee to the lender.

How the program works:

- Interested producers set up an association through a corporate or cooperative structure with a minimum of 20 members.
- Members of the association can then obtain loans for bred cattle (cows must be less than 5 years of age) from lenders with the Saskatchewan Government providing a guarantee to the lender.
- Loans limits under the program are restricted to \$25,000/member for the 1st and 2nd years then \$50,000 for year 3 and \$75,000 in year 4 and thereafter with an association maximum of \$4,000,000.
- Members are required to place 10% of the value of the livestock purchased in the association's assurance fund. In case of default the association repays loans from this assurance fund before any payment is made under the guarantee.
- Under the program the Government of Saskatchewan guarantees lenders repayment of 25% of the outstanding loan at the time of default plus accrued interest.
- Benefits of the program include:
 - lower interest rates being obtained than what could be on an individual basis.
 - the livestock purchased and the assurance fund being the only security taken by the lender.

Conclusion

While community ownership provides advantages and opportunities for grain and livestock producers to diversify or expand in the livestock industry at lower investment and risk levels, it is not risk free. Before a community ownership strategy is pursued a detailed business plan must be prepared. Saskatchewan Agriculture & Food has a detailed business plan available for a community owned 1000

head cow/calf enterprise. This business plan was prepared by students at the University of Saskatchewan for a specific location and operational structure within the province. The estimates used in this publication should be examined carefully to ensure costs are representative for your area and the type of operational structure planned. Copies of this business plan are available from the Economics and Farm Management Section, Sustainable Production Branch, Room 125, Walter Scott Building, Regina Saskatchewan, S4S 0B1

Ph. (306) 787-6613. This publication can be used as a guide to help evaluate if this is a viable option for you or your community.

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